

**COMMENTS OF  
HENRY WALTON, CHAIR  
SOC ENTERPRISES**

**FOR THE  
PUBLIC HEARINGS  
THE COMMITTEE FOR PURCHASE  
FROM PEOPLE WHO ARE BLIND  
OR SEVERLY DISABLED**

**ARLINGTON, VA**

**JANUARY 12, 2006**

## **COMMENTS OF**

**Henry Walton, Chair  
SOC Enterprises (SOC)  
January 12, 2006**

Thank you for the opportunity of presenting our comments to the Committee for Purchase From People Who Are Blind or Severely Disabled (the Committee) regarding proposed rulemaking qualifications to participate in the Javits-Wagner-O'Day (JWOD) Program and guidelines under which executive compensation may influence fair market prices set by the Committee. My name is Henry Walton and I am the Chair of the SOC Board of Directors and for more than 7 years have been a member of the SOC Board of Directors. SOC has provided high quality administrative services to the federal government through the auspices of the JWOD for more than twenty-five years. We pride ourselves on pioneering best practices in the areas of tele-services, warehousing, mailroom operations, and fulfillment and clearinghouse services and in providing best value to our government customers. The JWOD program has been instrumental in assisting the SOC mission of assisting and supporting people with disabilities to achieve employment

and greater independence and integration in the workplace and in the community.

On a personal level I can attest to the fact the JWOD program is providing exceptional employment and training opportunities. My daughter Amy has been employed under the program for a number of years. The pride and self-worth she gains from her job with the SOC Army Corps of Engineers Project in downtown D.C. is immeasurable. Needless to say the impact of this program on our family is significant. It is essential that the JWOD program remain viable and sustain our joint effort of increasing employment and training opportunities for persons with severe disabilities.

On December 13, 2004 and January 31, 2005 we provided comments to the Committee in response to the proposed rulemaking on “Governance Standards for Central Nonprofit Agencies and Nonprofit Agencies Participating in the Javits-Wagner-O’Day Program (Federal Register, vol 69, #218, Friday, November 12, 2004). These comments reflected our concerns about how these changes would be administered,

the basis for proposed governance standards, the nature and extent of the problem, the authority of the Committee to regulate governance and executive compensation, methods to determine reasonableness of compensation, and the impact and cost of compliance. We continue to have on-going concerns that expanded Committee regulations and qualifications are not appropriate but more importantly will not lead to the desired goals of improved governance and reduction in “excessive compensation costs”.

No compelling need has been provided by the Committee which would require additional regulatory actions on their part. In the proposed Committee rule of November 12, 2004 it was noted that: “Recent accounts alleging public concerns regarding isolated instances of excessive compensation packages for non-profit agencies; a perceived lack of full disclosure in the financial reporting of non-profit agencies; and the absence of formal guidelines to establish independent boards of directors for JWOD affiliated central non-profit agencies prompted this proposed change”. The Committee has provided no additional rationale, evidence or substantiation that such “lack of full disclosures” and

“excessive compensation” has impaired the administration, oversight and administration of the JWOD Act. Further, there is no precedent in law or regulation for any other socio-economic program authorized by the federal government which incorporates the “best practices” cited in the advanced notice. In addition no authoritative source is provided which verifies the listed “best practices” and criteria that are widely considered as benchmarks of good non-profit agency governance practices.

A recent issue of the Nonprofit Quarterly (“Regulation and Accountability: The New Wave”, Regulatory Landscape, 2005) describe the shifts in the federal regulatory environment for public charities. In an article “Is Accountability the Same as Regulation? Not Exactly” by Ruth McCambridge, the author discusses organizational governance. She describes the regulatory configuration surrounding public charities as multi-dimensional. This includes: the non-profit board practices assuring proper accountability to stakeholders, self regulating professional group standards and accreditation; voluntary ethics and accountability programs (i.e. state associations, Better Business Bureau,

etc.); foundation and government contract and grant requirements; state and local charitable registration requirements; IRS and other federal reporting requirements; and additional scrutiny by the National Center for Charitable Statistics, Guidestar, charity watchdog organizations and the press. Many non-profits with multiple funding and programs encounter a wide variety of external accountability requirements. The author believes that: “accountability needs to be restructured so they are reasonable, cohesive, and size sensitive”... and that “disclosures and reporting requirements do not need to be further complicated to ensure quality reporting and enforcement – they need to be streamlined and fine tuned, funding needs to be made available for transparency and enforcement; and a few laws and regulations around a few classes of organizations primarily in philanthropy, need serious strengthening”.

She also notes that: “Regulation is important but does not equal accountability. In fact it almost always misses one of the most important elements of accountability: our responsibility to the cause we are established to benefit”. The internal organizational mechanism is the primary means to adjust organizational direction and strategies to assure

operations are in the best interests of those it is designed to benefit.

Accountability is always a mix of self control and external control and in general federal and state contractual arrangements impose high regulatory and reporting requirements already. In essence good governance comes from good self regulation.

SOC now maintains operational accountability under twenty-eight federal statutory and/or regulatory requirements; twenty applicable state requirements; and ten local requirements as well as additional contractual and licensing requirements as a business, non-profit organization, employer, and human services provider. We were the first agency in Virginia to be accredited for vocational services by CARF – the Rehabilitation Accreditation Commission which sets voluntary standards for service; business practices, human resources, legal requirements, financial planning, management and governance. These peer-reviewed field generated standards provide comprehensive guidance to accredited organizations and encourage continual quality improvement (“CARF, 2005 Employment and Community Services Standards Manual”, July 2005 – June 2006, CARF International,

Tucson, Arizona). It has been estimated that like SOC one half of all agencies operating under the JWOD program are currently CARF accredited. All non-profit agencies contracted as vendors with the Virginia state vocational rehabilitation agency, the Virginia Department of Rehabilitative Services are required to have CARF accreditation in order to be an approved vendor. CARF standards are not prescriptive but illustrative and allow for application based on locality, type of organization, size, population served, etc. CARF is currently strengthening governance standards which are expected to be incorporated into 2007 standards which will become effective in July 2006.

Currently, a concept called “deemed status” is utilized for Medicare and Medicaid providers. This certifies coverage compliances in federal regulations when a national accrediting organization verifies that the organization meets or exceeds federal conditions, including conditions for coverage. Agencies qualified for “deemed status” may not be required to undergo separate inspections on behalf of the federal government. Some states also recognize accreditation in lieu of



performing routine state licensure inspection (“Joint Commission on Accreditation of Healthcare Organizations (JCAHO), Chicago, Illinois and Federal Register, November 11, 2002). “Deemed status” has been available to Accreditation Association for Ambulatory Healthcare and JCAHO accredited organizations regarding governance, quality management and clinical records since December 19, 1996. We propose that agencies that are accredited by CARF be afforded “deemed status” for compliance with any current or future Committee regulatory and compliance requirements since these represent the most valid, commonly accepted consensus standards available on governance and other best business and operational practices of community rehabilitation programs. Further, it is impractical and economically unfeasible for the Committee to enforce the criteria and tests stipulated in the Committee’s advance notice. CARF standards are reviewed and revised annually by a peer review group to assure that they meet contemporary practices. Should the Committee adopt its own governance rules they will require frequent revisions to meet regularly changing standards of practice. The Committee currently undertakes annual site visits either directly or through NISH/NIB to certify

compliance with JWOD and other regulations. There is no mention in the advanced notice as to how this program will be strengthened and to what extent revised rules on governance and compensation will be administered through this process.

The advanced notice discusses effect on fair market prices determined by the Committee. In 1999 the Committee issued a final rule regarding pricing (Federal Register, Vol 64, #199, October 15, 1999) which changed pricing regulations to reflect “a preference for negotiated rather than formula-based fair market prices”. It also clarified that the Committee is exempt from other statutory requirements that cost or pricing data be submitted to contractual activities before a price can be negotiated and recommended by the Committee. Subsequently the Committee issued Pricing Memorandum Number 3 (PR-3) on June 21, 2002 which provides guidance for determining the fair market price for a JWOD service contract which supersedes Pricing Memorandum Number 6 (PR-6) issued on November 30, 1995 on this same subject. This memorandum emphasizes acquisition streamlining in which contracting officers are “prohibited from requiring cost and pricing data from non-

profit agencies under the JWOD Program because the prices are set by law or regulation”. Other data may be requested to support price reasonableness under special circumstances, with OMB Circular A-122 Cost Principles for Non-Profit Organizations applicable to allowable direct and indirect costs that are “reasonable, allowable, not prohibited and consistent with applicable accounting practices and standards”.

The OMB A-122 circular specifies that compensation for personal services including all compensation paid during an award period is allowable except that “total compensation to individual employees is reasonable for the services rendered and conforms to the established policy of the organization consistently applied to both Federal and non-Federal activities; and charges to awards whether treated as direct or indirect costs are determined and supported in this paragraph.

Reasonableness is based on consistency with compensation paid for similar work in the organizations non-federal sponsored activities where not found in such non-federal activities will be considered reasonable when compared to compensation paid for similar work in labor markets where the organization competes for employees (“Section 8,

Compensation for Personal Services”, OMB Circular A-122, Revised May 10, 2004, Section 8).

No artificial ceiling or threshold is applied to the reasonableness test. Under IRS regulations charitable organizations are permitted to pay “reasonable compensation” to board members, chief executive officers, and other staff. This is defined as the amount that would ordinarily be paid for like services by like enterprises (whether tax-exempt or taxable under like circumstance. (Treasury Regulations, para 53.4958 – 4(b)(1)(ii). If a board approves compensation based on appropriate data that helps determine comparability or fair market value and documents the basis for its determination the regulations confer a rebuttal presumption on the reasonableness of compensation (Treasury Regulations, para 53.4958-6). Comparable data needed to determine reasonableness include: compensation paid by similarly situated organizations (taxable and tax-exempt) for functionally comparable positions; the availability of similar services in the geographic area; current compensation surveys compiled by independent firms; and actual written offers from similar organizations competing for

executives and other disqualified persons. Organizations with gross receipts of less than \$1 million are allowed to rely on compensation paid by three comparable organizations in similar communities for similar services (Treasury Regulations, para. 53.4958-6(c) (2)). A disqualified person employed in a public charity found to have received excessive compensation must repay the excess benefits to the charity plus interest and pay an initial tax of 25 percent of the excess benefit (Treasury Regulations, para. 53.4958-1(a), 53.4958-7(c) and Internal Revenue Code para 4958(a)(1)). These regulations provide a bright line standard and enforcement mechanism which mitigate and supercede the Committee in setting its own standards or criteria.

Since July 1, 1998 SOC has operated a progressive pay for performance program which is a transparent and defensible set of procedures on salary administration and salary adjustments.

Reasonableness of salaries is determined through determination of skill levels, responsibilities, contribution to organizational goals and market wage information. It should be noted that many federal agencies are in the process of adopting such plans including the Department of

Homeland Security. As a part of our compensation policies we periodically test the market to determine market rates and salaries for all positions in order to determine reasonableness. Since 1998 we have conducted such comprehensive and independent surveys of our local labor market on three separate occasions. We are now in the process of conducting our fourth such survey. We have organized an innovative consortium of eight non-profit agencies in the D.C. Metro area to co-sponsor a thorough and comprehensive market survey in our area. This is being conducted by Baylights Compensation Consulting, Ellicott City, MD. This market survey approach is a cost-effective model. We would be pleased to share this model with the Committee as a prototype for developing a determination of “compensation reasonableness”. (See Attachment A)

The Committee proposes to define “highly compensated individual” as an individual with a year’s compensation in excess of \$90,000 and/or was in the top 20 percent of employees by compensation for any year. No rationale is provided for adopting this regulatory standard. Federal Acquisition Regulations require that compensation

must be based on and conform to the terms and conditions of a contractors established compensation plan and must also be reasonable (FAR 31.205-6). Statutory compensation ceilings have been enacted by the federal government since fiscal year (FY) 1995. Federal contractors are required to implement ceilings by ensuring that no compensation in excess of these levels is allocated to government contracts while also ensuring that they have a cost allocation methodology that legitimately maximizes cost recovery for executive compensation expenses. The FAR requires that reasonableness of compensation for the work performed is based on compensation practices of similar firms: of the same size, in the same industry, in the same geographical area and predominately engaged in nongovernmental work. The primary conforming method is standard external pay surveys for participants only, magazines, newspapers, customized surveys (consultants) and internet surveys, (DCAA Contracts Audit Manual, “Chapter 5, Section 8) DCAA utilizes a number of different surveys in determining their statutory ceiling (RSM McGladry, Aspen Publishers Officer Compensation Report – OCR, the Assessor Series by ERI, the DC Execuserve database and the Wyatt Data Services – Top Management

Compensation Regression Analysis Report). Executive compensation is regularly reviewed as a part of final overhead rate audits. The DCAA model requires contractors to provide compensation of no less than the top five executives, the primary industry code, employee name, position, nature or charges (direct or indirect), ownership percentage, and total compensation or element of compensation for each of the last three years. The government presumes that reasonableness is judged by using the average or median (benchmark compensation) of companies surveyed in the relevant grouping.

The most recent Defense Contract Audit Agency memorandum on the executive compensation cap for FY 2005 and beyond is \$473,318 for costs incurred after January 1, 2005 and applies to all defense and civilian agencies covered by FAR cost principles (Memorandum for Regional Directors, DCAA, “Audit Guidance on the Executive Compensation Cap for Contractor Fiscal Years 2005 and Beyond”, May 20, 2005 and Federal Register 70 FR 23888, May 5, 2005) are covered. These benchmark compensation amount set limits on the allowability of compensation costs under government contracts and are based on the



median amount of compensation for all senior executives of benchmark corporations for the most recent year that data is available. This methodology and benchmark compensation cap should be instructive to the Committee when considering compensation reasonableness.

In closing I would like to thank the Committee for soliciting comprehensive input through these hearings. We believe that the disabled individuals employed and trained under contracts authorized by JWOD will benefit from non-profit agencies who practice good governance and contemporary market based compensation practices. We strongly believe that current regulations and voluntary compliance through accreditation is necessary and sufficient to assure best practices are maintained. Our organization is committed to providing the most progressive, transparent management to persons we employ.

## ATTACHMENT A

### 2005 Rehabilitation Service Providers Compensation Survey

Since 1997 Baylights Compensation Consulting, L.L.C. has conducted compensation surveys of rehabilitation providers in the

Washington, DC metropolitan area. These surveys provide current market based information on base pay and benefits on all positions employed by survey participants. Such information is useful to determine pay equity compensation strategy and practices, and in substantiating the “reasonableness” of compensation. Based on the information provided by the survey an individual organization can determine their market position and can modify their salary structure accordingly. Information obtained in the surveys is translated into grouped data to maintain the confidentiality of individuals and organizations.

For the 2005 survey eight organizations are sponsoring the cost of the survey. They include Hartwood House, SOC Enterprises, Servicesource, St. John’s Community Services, MVLE Enterprises, Melwood, Arlington Community Residences, and the Arlington County Department of Mental Retardation. This consortium acts as a steering committee to direct the consultant and advising on the survey structure and analysis. Planning, preparation and delivery of the survey is conducted by a neutral third party compensation consultant, Baylights

Compensation Consulting which provides unbiased recommendations. Broad samplings of relevant organizations are surveyed on a voluntary basis. Questionnaires include raw salary data and the consultant provides an analysis of number of incumbents reported for each position, information on the salary range and actual pay by position. Benefits and other non-wage incentives are also analyzed. The results of the survey are published and made available to all survey participants. Sponsors receive additional analyses to compare their own salary information to survey and other secondary market data contained in external surveys. It is expected that the 2005 Survey will be available in February, 2006.



#### **SUPPLEMENTARY COMMENTS**

**HENRY WALTON, CHAIR  
BOARD OF DIRECTORS  
SOC ENTERPRISES  
PUBLIC HEARINGS  
THE COMMITTEE FOR PURCHASE**

**FROM PEOPLE WHO ARE BLIND  
OR SEVERELY DISABLED**

**JANUARY 25, 2006**

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**SUPPLEMENTARY COMMENTS OF  
HENRY E. WALTON, CHAIR  
BOARD OF DIRECTORS**

During the JWOD Committee hearings on governance and executive compensation held in Arlington, VA on January 12, 2006 a number of questions were posed by the Committee. This supplementary information is to provide additional information and suggestions to assist the Committee in determining alternate approaches for participation qualifications as a JWOD program and for fair market price determinations set by the Committee. These comments are in addition to written comments submitted on December 29, 2005 and January 11, 2006 and oral testimony on January 12, 2006. The following are these additional comments:

CARF Accreditation

A number of those testifying recommend that “deemed status” be accorded to accredited organizations regarding JWOD qualified agency “best practices”. This includes accreditation by CARF, the National Accreditation Council or other recognized voluntary national accreditation bodies. All CARF accredited programs must meet standards of business practice which includes: input from stake holders; accessibility; information management; rights of persons served; health

and safety; human resources; leadership; legal requirements; and financial planning and management. Within the past week CARF issued revised standards for Employment and Community Services which cover the general area of governance in order to supplement new accountability requirements. These include many of the best practices listed by the Committee in their announcement. They also provide for additional good governance practices (i.e. board orientation, education and development, board assessment, etc.). The already existing standards on leadership and finances covers corporate responsibility efforts including ethical codes and corporate compliance and finances (2006, Employment and Community Services Standards Manual, July 1, 2006 – June 30, 2007 Criterion G Leadership, Criterion I Financial Planning and Management, Criterion J Governance, CARF International, Tucson, Arizona). Accreditation as an accountability strategy has gained broad acceptance as a means to operationalize good business practices. In the public sector (federal, state and local) there is shared responsibility for business and human service quality assurance. Under “deemed status” via national accreditation the provider organization is “deemed” to have met public agency regulatory requirements. Such arrangements are an effective means to assure good business practices because:

- they demonstrate public-private partnership for sharing responsibility and authority and a pluralistic approach to monitoring and oversight;
- using external accrediting bodies with established criteria standards and independent reviewers relieves the government of claims that funding agencies are biased or politically motivated in contract awards, client referrals, and in conflicts of interest; and
- using external accrediting bodies relieves the public bodies of many of the costs of maintaining their own reviews and site visits.

(Accreditation as an accountability strategy, III. The benefits of accreditation, <http://www.carf.org>).

CARF has provided useful information on corporate compliance which covers compliance with statutory and regulatory requirement. This relies on a strong and well-communicated code of ethics which specifies and defines the culture and expected organizational behavior (How Corporate Compliance Helps Your Organization, Margaret A. O’Brien, CARF International, <http://www.carf.org>). The relationship between CARF Standards and Sarbanes-Oxley and Corporate Compliance is displayed in the attached flow chart (Sarbanes-Oxley and Corporate Compliance, <http://www.carf.org>).

### Relationship Between Compensation of Line Workers and Highly Compensated Individuals

During the Arlington hearings there was a suggestion made that a mandatory ratio be established by the Committee between line worker wages and management compensation. As noted this “compressed salary ratio policy” was adopted by Ben and Jerry’s. In 1985 they adopted a 5 to 1 salary ratio based on an “annually adjusted floor livable wage”. This ratio limited top salaries to five times the lowest livable wage salary in Vermont for a single person. However, in 1995 this approach was abandoned because it prevented the firm from offering competitive compensation for the leadership skills and competencies required by management. They continued to include data in an annual social and environmental report disclosing this ratio. In 2003 the living wage was set at \$20,759 per year (\$9.98/hour) with a compensation ratio (highest to lowest full time compensation) of 17.5 to 1. Compensation was defined to include entry level salary, bonuses and average benefit costs per employee (Ben and Jerry’s Environmental Assessment 2003, Ben and Jerry’s Homemade Holdings, Inc., South Burlington, VT.).

The only other major organization using a wage indexing approach is Whole Foods Markets. John Mockey, Whole Foods CEO limits his own pay to no more than 14 times the pay of his average employee. The Institute of Policy Studies and United for a Fair Economy develops aggregate ratios on CEO salaries on an on-going basis. They report that in 2004 the ratio of CEO pay to the average production worker was 431 to 1 (Business Practices Executive Excess 2005, Defense Contractors Get More Bucks for the Bang, Sarah Anderson et al., Institute for Policy Studies, August 30, 2005). The Wall Street Journal, January 21-22, 2006 recently reports that the average CEO salary in the U.S. is 475 times greater than the average worker's salary. This compares to Japan where it is 11 times greater; France where it is 15 times greater; Canada 20 times greater; South Africa 21 times greater and Great Britain 22 times greater. The JWOD average direct labor was \$8.98 in 2004 which equates to \$18,678 annually including other non-wage benefits, e.g. health and welfare (2004 Annual Report on the Javits-Wagner O'Day Program, The Committee for Purchase From People Who Are Blind or Severely Disabled, 2005). The median compensation of JWOD producing agency managers is \$100,955 and the mean compensation is \$124,473 (including non-wage benefits). (NPA Executive Compensation Distribution, NISH, unpublished). Using the mean the ratio between management and direct labor workers in JWOD is 7 to 1 and for the median it is 6 to 1.

The vision espoused by the JWOD program is: "The JWOD Program enables all people who are blind or have other severe disabilities to achieve their maximum employment potential... The vision will be realized when every JWOD employee earns not only the Federal minimum wage (or higher applicable state minimum wage) but also a living wage and benefits package appropriate to his or her geographic locality" (2004 Annual Report on the Javits-Wagner O'Day Program, op. cit.). At the present time wages paid under the program are based on productivity under provisions of Section 14(c) of the Fair Labor Standards Act (29 CFR, Part 525 revised August, 2005). Under this provision the U.S. Department of Labor permits wage rates at less than the Federal minimum or commensurate wage after a pre-approved certification. The Federal minimum wage has remained fixed at \$5.15 since September 1, 1997. In the interim a number of states have adopted their own minimum wage standards which exceed the Federal minimum (e.g. Washington, D.C. and 17 states). Also a number of localities have adopted over 134 living wage statutes since the Federal minimum wage has remained fixed at \$5.15 ("Is How Much You Pay a Worker a Moral Issue", Jon Gertner, The New York Times Magazine, January 15, 2006). The official poverty line for a single person has been set at \$8,860 for many years. A living wage is one that allows a worker to become self supporting and self-reliant. One estimate of living wage estimates a living wage of \$8.50/hour with health insurance and \$10.50 without health insurance for a single person in 2002 dollars (Ending Poverty As We Know It, William P. Quigley, "Chapter 12 Support for a Right to Living Wages", Temple University Press, Philadelphia, 2003).

An alternative approach to maximizing benefits to direct labor workers employed under the JWOD program is to utilize information currently available to the Committee. This is contained in the Quarterly Employment Report (QER) currently required under the program. Information includes direct labor hours and wages paid to employees with severe disabilities and total JWOD and other production sales. Since 1999 SOC has been tracking this data under our Balanced Scorecard in order to "maximize the self sufficiency for people with disabilities who are employed by us". On a quarterly basis we have set strategic targets for this measure. Based upon QER data we devised a wage to revenue index that determines direct labor wages paid to severely disabled workers in relation to total production sales

(JWOD and commercial). Direct labor wages paid to employees with severe disabilities (QER item #A.3) divided by total sales (QER item # B). The ratio we obtain has ranged from a high of 34.2% to a low of 27.8% (July, 1999 – July 2005). This supplements the information on direct labor ratios already available in the QER report which documents conformance with the JWOD 75% labor ratio requirement. It should be noted that this idea is applicable to services and not products. In order to calculate a comparable index for products, material and other production costs would have to be deducted in order to arrive at a comparable adjusted calculation.

### EMPLOYMENT RATE OF PEOPLE WITH DISABILITIES

There is a decade long decline in the employment participation rate of working aged people with disabilities. Based on Census Bureau data the employment rate declined from a rate of 40.8% in 2001 to 38.3% in 2001. (“Has the Employment Rate of People with Disabilities Declined?” David C. Stapelton, Cornell University, December 2004). Much has been made of the fact that the JWOD program provides employment for 45, 000 individuals as compared to the estimated 15 million unemployed persons with disabilities. (“Opportunities for Too Few? Oversight of Federal Employment Programs for Persons with Disabilities”, Report of Chairman on Federal Program for Employment of Persons with Disabilities, U.S. Senate Committee on Health, Education, Labor and Pensions, October 20, 2005). However, in FY 2003 federal agencies employed 25, 551 disabled workers. Equal Opportunity Commission data shows a decline of 19.8% from the 31, 860 disabled federal workforce in 1994. The Urban Institute has concluded that the major decline in disabled workforce participation results because of the forced choice between work and benefits; initiatives to promote work for adults with disabilities falls short of goals; health insurance can tie people with disabilities to benefits not work; youth with disabilities do not easily transition into work; and disabled adults not qualifying for SSI have a difficult time obtaining other assistance. (“Safety Net or Tangled Web?”, Urban Institute, Washington, DC, November 2003). The JWOD program is doing an exceptional job when employment under the JWOD program is considered within the context of this declining labor market participation decline. The JWOD program has defied this trend, growing from 4,749 employed in the 1980’s to 45, 000 employed in 2004. Many of these jobs are now services related rather than products. In 1985, 55% of JWOD jobs came from products while today only 30% came from products. That is 70% of all JWOD sales are service related. As such, they are covered by the Service Contract Act (SCA) which specifies a minimum wage floor which must be paid to employees of federal service contracts based on occupational title in a particular locality (the so called wage determination rate). This rate exceeds the minimum wage specified under the Fair Labor Standards Act in all instances. It does not include health and welfare benefits which are also listed in the wage determination. In June 2005 the fixed cost per employee for SCA health and welfare benefits was increased to \$2.87 per hour (\$497 per month). Workers employed in JWOD service contracts receive this benefit in cash or specified cash equivalent fringe benefits. It should be noted that increases in wage determination rates and health and welfare benefit escalation has had a major impact on fair market price increases. Year to year increases in JWOD service prices have primarily resulted from these mandatory SCA direct labor costs as wage determinations and health and welfare rates have been modified. In 1998 the SCA health and benefits rate was \$1.39 per hour. It is currently \$2.87 per hour (a 100% increase).

We hope that the information provided here will be useful to the Committee in their regulation process. If we can be of further assistance we would be pleased to clarify our comments and recommendations.

Attachment: CARF, Sarbanes Oxley and Corporate Compliance